



0000091658

ORIGINAL

EXCEPTION RECEIVED

10

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 COMMISSIONERS

3 MIKE GLEASON, Chairman  
4 WILLIAM A. MUNDELL  
5 JEFF HATCH-MILLER  
6 KRISTIN K. MAYES  
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF  
9 SOUTHWEST GAS CORPORATION FOR THE  
10 ESTABLISHMENT OF JUST AND REASONABLE  
11 RATES AND CHARGES DESIGNED TO REALIZE  
12 A REASONABLE RATE OF RETURN ON THE  
13 FAIR VALUE OF ITS PROPERTIES  
14 THROUGHOUT ARIZONA.

Docket No. G-01551A-07-0504

**EXCEPTIONS**

11 The Arizona Investment Council ("AIC") submits these exceptions to the Administrative  
12 Law Judge's Recommended Opinion and Order dated December 1, 2008 (the "ROO").

13 In the Company's last rate case, the Commission recognized that "Southwest Gas is  
14 facing increased financial pressure due to declining usage" and encouraged parties "to seek rate  
15 design alternatives that will truly encourage conservation efforts, while at the same time  
16 providing benefits to all affected stakeholders."<sup>1</sup> Several of the stakeholders in this case took  
17 that Commission encouragement very seriously. Southwest Gas proposed the Weather  
18 Normalization Adjustment Provision ("WNAP") and the Revenue Decoupling Adjustment  
19 Provision ("RDAP"). In a unique alliance of investors, energy efficiency advocates and  
20 environmentalists, AIC and SWEEP sponsored testimony, while the Natural Resource Defense  
21 Council offered public comment, in support of WNAP and RDAP.

Arizona Corporation Commission

**DOCKETED**

DEC 10 2008

24 <sup>1</sup> Decision No. 68487, p. 33, ll. 26-27 and p. 34, ll. 14-15.

DOCKETED BY

1 AIC urges the Commission to amend the ROO and approve both WNAP and RDAP.  
2 WNAP protects customers when weather is colder than normal and stabilizes revenues when  
3 weather is warmer than normal. WNAP offers a classic “win/win” equation and over the past 30  
4 years has become a standard rate design device throughout several jurisdictions. The American  
5 Gas Association recently reported that natural gas utilities in 25 states ranging from Georgia and  
6 New York to Utah and Oregon have weather normalization clauses.<sup>2</sup>

7 As Dr. Hansen testified, WNAP takes advantage of the fact that when the weather makes  
8 the Company better off, the customer is worse off and vice versa. WNAP reduces considerably  
9 the weather-driven volatility of customers’ bills. This Commission is acutely aware of the pain  
10 which customers feel when severe weather combines with high gas prices to produce abnormally  
11 large bills. From the investors’ standpoint, the revenue stability offered by WNAP is becoming  
12 even more important—particularly in light of today’s increasingly tight and turbulent debt and  
13 equity markets. Finally, the evidence in this case shows that had WNAP been in place over the  
14 past ten years, the Company’s customers would have paid \$5.8 million less than they actually  
15 did<sup>3</sup>—a fact which refutes any suggestion that the WNAP is utility biased.

16 Shifting to RDAP, its key advantages to “all affected stakeholders” are: the preservation  
17 and potential increase in the customer’s incentive to conserve; the boost provided conservation  
18 and energy efficiency programs; the rate gradualism which it produces for customers over time;  
19 the improvement in the company’s ability to attract capital at reasonable rates; and the reduction  
20 in regulatory effort and expense.

21  
22  
23 <sup>2</sup> Natural Gas Rate Round-Up, August 2007.

24 <sup>3</sup> Brooks Congdon Rebuttal, A-25, ABC-1.

1 The ROO's primary objection to RDAP appears to be the mistaken belief that it will be a  
2 "guaranteed method of recovering authorized revenues."<sup>4</sup> As Company witness Ralph Miller  
3 testified, that simply is not the case:

4 [T]he RDAP looks at...sales per customer [and] if sales per customer don't  
5 change, then there is no RDAP. [B]ut costs can still change...costs will go up,  
6 equity return will go down. And these decoupling proposals won't solve that  
7 problem.<sup>5</sup>

8 RDAP only gives the Company a slightly better opportunity to recover its Commission-approved  
9 fixed costs in the face of consistently declining average use per customer and a current rate  
10 design which ties recovery of more than 50% of fixed costs to variable commodity sales. It  
11 alters none of the business and financial risks faced by Southwest Gas.

12 The ROO decides that revenue decoupling should not be adopted now, but should again  
13 be put off to the generic docket. But, through the collaborative ordered by the last rate decision  
14 and the thorough discussion conducted in this case, a "generic docket" has already been  
15 conducted with specific reference to Southwest Gas. A consensus was developed among a  
16 leading environmental group, an energy efficiency organization, an investors group and the  
17 Company. In fact, the real world experience of WNAP and RDAP implementation by the  
18 Company would assist the Commission in reaching conclusions in the generic docket for other  
19 utilities.

### 20 CONCLUSION

21 The Company has proposed that the Commission implement the RDAP and the WNAP  
22 on a pilot basis with the further safeguard of a cap at the revenue amount necessary to yield the  
23 Company's authorized rate of return. Dr. Hansen has reviewed similar pilots and testified on

---


24 <sup>4</sup> ROO, p. 41, l. 8.

<sup>5</sup> HR TR, Vol. III, pp. 614-615.

1 their value to customers, companies and regulators in Oregon and Utah. SWEEP's Jeff Schlegel  
2 has noted that "the experience of pilot implementation will do more to resolve the differences  
3 among parties than continued debate" in other dockets or subsequent cases.<sup>6</sup> Debate through two  
4 full rate case cycles is more than sufficient. The AIC urges the Commission to approve WNAP  
5 and RDAP.

6 RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of December, 2008.

7 GALLAGHER & KENNEDY, P.A.

8  
9 By   
10 Michael M. Grant  
11 2575 East Camelback Road  
12 Phoenix, Arizona 85016-9225  
13 Attorneys for Arizona Investment Council

12 **Original and 13 copies** filed this  
13 10<sup>th</sup> day of December, 2008, with:

14 Docket Control  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

18 **Copies** of the foregoing delivered  
19 this 10<sup>th</sup> day of December, 2008, to:

20 Dwight D. Nodes  
21 Assistant Chief Administrative Law Judge  
22 Hearing Division  
23 Arizona Corporation Commission  
24 1200 West Washington Street  
Phoenix, Arizona 85007

---

<sup>6</sup> SWEEP-2, p. 3, ll. 128-129.

1 Commissioner Mike Gleason, Chairman  
Arizona Corporation Commission  
2 1200 West Washington Street  
Phoenix, Arizona 85007

3  
4 Commissioner William A. Mundell  
Arizona Corporation Commission  
1200 West Washington Street  
5 Phoenix, Arizona 85007

6 Commissioner Jeff Hatch-Miller  
Arizona Corporation Commission  
7 1200 West Washington Street  
Phoenix, Arizona 85007

8  
9 Commissioner Kristin K. Mayes  
Arizona Corporation Commission  
1200 West Washington Street  
10 Phoenix, Arizona 85007

11 Commissioner Gary Pierce  
Arizona Corporation Commission  
12 1200 West Washington Street  
Phoenix, Arizona 85007


13  
14 Maureen Scott  
Legal Division  
Arizona Corporation Commission  
15 1200 West Washington Street  
Phoenix, Arizona 85007

16  
17 **Copies** of the foregoing mailed  
this 10<sup>th</sup> day of December, 2008, to:

18  
19 Debra Jacobson  
Southwest Gas Corporation  
P.O. Box 98510  
20 Las Vegas, Nevada 89193-8510

21 Karen S. Haller  
Southwest Gas Corporation  
22 5241 Spring Mountain Road  
Las Vegas, Nevada 89150

1 Daniel W. Pozefsky  
RUCO  
2 1110 West Washington Street, Suite 220  
Phoenix, Arizona 85007  
3  
4 Timothy M. Hogan  
Arizona Center for Law in the Public Interest  
202 East McDowell Road, Suite 153  
5 Phoenix, Arizona 85004  
Attorneys for SWEEP  
6  
7 Jeff Schlegel  
SWEEP Arizona Representative  
1167 West Samalayuca Drive  
8 Tucson, Arizona 85704-3224  
9 Joseph Banchy  
The Meadows HOA  
10 6644 East Calle Alegria  
Tucson, Arizona 85715

11   
12 Don Deasall  
18762-6/1963979

13

14

15

16

17

18

19

20

21

22

23

24